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**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 14 day of August, 2000

Served: August 16, 2000

Essential Air Service at

**IRONWOOD, MICHIGAN/
ASHLAND, WISCONSIN**

under 49 U.S.C. 41731 *et seq.*

Docket OST-1996-1266 - 14

ORDER TO SHOW CAUSE

Summary

By this order, the Department is tentatively reselecting Great Lakes Aviation, Ltd., d/b/a United Express, to provide subsidized essential air service at Ironwood, Michigan/Ashland, Wisconsin, for the two-year period ending June 30, 2002, at an annual subsidy rate of \$544,269. The order also provides for objections or competing proposals from other interested carriers.

Background

By Orders 98-7-24, July 31, 1998, and 98-12-30, December 23, 1998, the Department reselected Great Lakes Aviation, Ltd., d/b/a United Express, to provide subsidized service at Ironwood/Ashland through June 30, 2000, by operating 14 round trips (seven one-stop and seven two-stop) a week to Chicago O'Hare airport with 19-seat Beech 1900 aircraft at an annual subsidy rate of \$357,588.¹ (Most recently, Great Lakes has operated all Ironwood/Ashland service one-stop over Rhinelander.)

Under our normal procedures when nearing the end of a subsidy rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. We usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting it for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to

¹ See Appendix A to this order for a map of the service area.

do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Great Lakes to submit a proposal for the continuation of its service at Ironwood/Ashland, beginning July 1, 2000.

Summary of Air Carrier Proposal

Great Lakes has submitted a proposal in response to our request. As a result of discussions with Department staff, Great Lakes has agreed to a new subsidy rate for the two-year period from July 1, 2000, through June 30, 2002. Specifically, Great Lakes proposes to shift the community's hub from Chicago O'Hare to Minneapolis/St. Paul and to operate 14 nonstop round trips each week with Beech 1900 at a new subsidy rate of \$544,269 annually.^{2 3} (Great Lakes inaugurated the new service pattern on June 8, 2000.)

Initial Community Comments

In proceedings such as this, we customarily entertain community comments in response to the show-cause order. In this case, however, the community has expressed certain comments in advance of the order. By letter dated May 15, 2000, the Chair of the Gogebic-Iron County Airport Board raised a number of questions relating to the motivations and circumstances surrounding Great Lakes' decision to shift its service at Iron Mountain from Chicago O'Hare to Minneapolis/St. Paul. These questions could be most appropriately addressed by the carrier; accordingly, we forwarded a copy of the letter to Great Lakes. By letter dated July 14, 2000, the Airport Manager of the Gogebic-Iron County Airport states that Great Lakes has responded to the questions, that the service appears to be adequate, and that the airport wishes to continue to work closely with Great Lakes as its commercial air service provider.

Selection Decision

After a review of the proposal and Great Lakes' service history, we have tentatively decided to reselect Great Lakes to continue serving Ironwood/Ashland as proposed. While the proposed rate represents a significant increase over the old rate, it appears reasonable for the service at issue and the carrier's performance continues to be satisfactory.

In Order 98-7-24, when we tentatively reselected Great Lakes to provide service from Ironwood/Ashland to Chicago O'Hare, we noted that traffic had responded to the change of hub from Minneapolis/St. Paul and had enabled a decrease in subsidy. As we indicate in our discussion of the communities' traffic and service history, below, that response proved to be short-lived. Even making allowance for the erosion in Great Lakes' service reliability in the wake of the nationwide pilot shortage in 1999, it is clear that the current level of Chicago service probably cannot recapture pre-1997 traffic levels at Ironwood/Ashland that were generated with Minneapolis/St. Paul service. Great Lakes claims further that the recent liberalization of slot conditions at

² Appendix B contains a summary calculation of Great Lakes' subsidy requirement.

³ See Appendix E for Great Lakes' proposed schedule.

O'Hare, rather than expanding opportunities for small-community service, has given rise to landside restrictions for small aircraft operators. Therefore, we will tentatively select Great Lakes to provide the current level of service (14 round trips each week) to Minneapolis/St. Paul for a two-year period. Consistent with Great Lakes' proposal, we shall require that the service be provided nonstop. As we near the end of this selection term, in the spring of 2002, we will reassess the impact of the change in hub back to Minneapolis/St. Paul.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service before we may subsidize it for essential air service. We last found Great Lakes fit by Order 2000-6-14, June 19, 2000, in connection with its subsidized service at Dodge City, Garden City, Hays, and Liberal Kansas/Guymon, Oklahoma. Since then, the Department has routinely monitored the carrier's continuing fitness, and based on our review of its most recent submissions, we find that Great Lakes continues to have available adequate financial and managerial resources to establish and maintain quality service at Ironwood/Ashland, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason that we should not find that Great Lakes remains fit.

Responses to Tentative Decision

As usual, we will allow interested parties 20 days from the date of service of this order to object to our decision or to file competing proposals. If no timely objections or competing proposals are filed, this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed. As a general matter, we request proposals that would provide service at levels commensurate with those tentatively selected here with twin-engine aircraft operated with two pilots.

Service and Traffic History

Great Lakes has been operating scheduled service at Ironwood/Ashland since June 15, 1988, when it replaced Simmons Airlines, Inc. Great Lakes provided service initially to Chicago O'Hare, then to Minneapolis/St. Paul. By Order 97-7-6, July 7, 1997, we approved Great Lakes' proposed alternate service pattern that changed Ironwood's hub from Minneapolis/St. Paul back to Chicago O'Hare, effective July 15, 1997. Ironwood/Ashland suffered a service hiatus of over eight weeks when Great Lakes

voluntarily suspended service beginning May 16, 1997, while it cooperated with the Federal Aviation Administration to resolve operational deficiencies in its system. Great Lakes resumed service at Ironwood/Ashland on July 15, 1997. During calendar year 1999, the most recent year for which data are available, Ironwood averaged 6.1 passenger enplanements a day, which represented a ten-percent decline from the previous year. In order to help carriers make their passenger and revenue forecasts, we have included historical traffic data in Appendix C to this order.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f), and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁴ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the

⁴ The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, implementing 31 U.S.C. 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

Community and State Comments

If we receive competing proposals, the communities of Ironwood and Ashland and the States of Michigan and Wisconsin are welcome to submit comments on the proposals at any time.⁵ Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.⁶

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY

1 We tentatively reselect Great Lakes Aviation, Ltd., d/b/a United Express, to provide essential air service at Ironwood, Michigan/Ashland, Wisconsin, as described in Appendix D to this order, for the period from July 1, 2000, through June 30, 2002;

2. We tentatively set the final rate of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of essential air service at Ironwood, Michigan/Ashland, Wisconsin, as described in Appendix D to this order, for the period from July 1, 2000, through June 30, 2002, payable as follows: For each calendar month during which service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix D, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$443.22;⁷

3. We direct Great Lakes Aviation, Ltd., d/b/a United Express, to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall

⁵ Civic parties should file an original and five copies of their comments in Docket OST-1996-1266. This filing should be addressed to:

Documentary Services Division, SVC-121.30
Office of the Secretary
U.S. Department of Transportation, Room PL-401
400 Seventh Street, S.W.
Washington, D.C. 20590

⁶ In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

⁷ See Appendix D for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

4. We find that Great Lakes Aviation, Ltd, d/b/a United Express, continues to be fit, willing, and able to operate as a commuter air carrier and capable of providing reliable service at Ironwood, Michigan/Ashland, Wisconsin;

5. We direct any interested persons having objections to the selection of Great Lakes to provide service as described in ordering paragraph (1), above, at the rate set forth in ordering paragraph (2), above, to file such objections or competing service proposals no later than 20 days from the date of service of this order; ⁸

6. If we receive objections or competing proposals within the 20-day period, Great Lakes will be compensated at the subsidy rate set forth in ordering paragraph (2), above, as a final rate until all objections are resolved;

7. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action. ⁹

8. Docket OST-1996-1266 will remain open until further order of the Department; and

⁸ Objections should be filed with the Documentary and Media Management Division, SVC-124, Room PL-401, Department of Transportation, 400 Seventh Street, S.W., Washington DC 20590. Proposals to provide air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 64171, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to Luther Dietrich at (202) 366-1046.

⁹ Because we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

9 We will serve copies of this order on the Mayor and Airport Manager of Ironwood, Michigan and Ashland, Wisconsin; the Departments of Transportation of Michigan and Wisconsin; the Governors of Michigan and Wisconsin; Great Lakes Aviation, Ltd., d/b/a United Express; and the persons listed in Appendix F to this order.

By:

A. BRADLEY MIMS

Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electric version of this document is available on the World Wide Web at
<http://dms.dot.gov/>*



Great Lakes Aviation, Ltd., d/b/a United Express
Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin
Calculation of Compensation Requirement

Mileage:	IWD-MSP	187		
Departures:		1,228		
Block hours:		1,134		
Flight hours		906		
Available seat-miles:		4,363,084		
Operating revenue:				
Passenger	6,000	IWD-MSP passengers @ \$79.00 average fare		\$474,000
Other	0.0062	of passenger revenue of \$474,000		<u>2,939</u>
Total operating revenue				\$476,939
Operating expense:				
Direct operating expense:				
Flying operations (a)	\$94.11	per block hour		\$106,721
Flying operations (b)	\$5.61	per departure		6,889
Hull insurance	\$4,100	12 months	0.3393	0.40
Fuel & Oil	\$0.916		Gallons per dep.	127
Maintenance (a)	\$75.00	per departure		142,856
Maintenance (b)	\$104.82	per flight hour		92,100
Aircraft lease	\$34,504	12 months		0.40
Total direct operating expense				<u>165,619</u>
				\$615,829
Indirect operating expense:				
IWD facility lease	\$1,238	12	months	\$14,856
IWD landing fees	\$7.50	614	IWD departures	4,605
IWD deicing charge	\$125.00	77	estimated apps.	9,625
IWD local marketing				5,000
IWD station manager				26,000
IWD station agent	\$20,800	2	agents	41,600
MSP cost per turn	\$152.00	614	MSP departures	93,328
Passenger-related	\$16.63	6,000	total passengers	99,780
Administrative	\$0.0142	4,363,084	available seat-miles	<u>61,956</u>
Total indirect operating expense				<u>\$356,750</u>
Total operating expense				<u>\$972,579</u>
Operating loss				\$495,640
Profit element	0.05	\$972,579	Total operating expense	<u>48,629</u>
Compensation requirement				<u>\$544,269</u>

Ironwood, Michigan/Ashland, Wisconsin
Historical Traffic Data

<u>Year</u>	<u>Annual Enplanements</u>	<u>Average Daily Enplanements</u>
1989	2,548	8.1
1990	5,063	16.2
1991	4,140	13.2
1992	4,006	12.8
1993	4,882	15.6
1994	4,432	14.2
1995	3,300	10.5
1996	2,774	8.8
1997	1,601	6.1
1998	2,122	6.8
1999	1,914	6.1

SOURCE: Bureau of Transportation Statistics, Form 298-C, Schedule T-1. Annual enplanements represent one-half of total origin-destination traffic, and average daily enplanements are generally based on 313 weekdays and weekends each year (314 in leap years). There was a service hiatus at the community from May 16 through July 14, 1997; consequently, the 1997 average is based on 262 weekdays and weekends.

Great Lakes Aviation, Ltd., d/b/a United Express
Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin

Effective period: July 1, 2000, through June 30, 2002.

Service: 14 round trips per week to Minneapolis/St. Paul.

Intermediate stops and upline service: Nonstop to Minneapolis/St Paul with no upline limitations.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$544,269 ¹

Subsidy rate per arrival/departure: \$443.22 ²

Compensation ceiling each week:³ \$12,410.16 ⁴

¹ This rate assumes an annual completion factor of 98 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

² Annual compensation of \$544,269 divided by 1,228 annual arrivals and departures as shown in Appendix B.

³ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation.

⁴ Subsidy rate per departure of \$443.22 multiplied by 28 subsidy-eligible arrivals and departures each week.

Great Lakes Aviation, Ltd., d/b/a United Express
Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirement at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Great Lakes Aviation, Ltd., d/b/a United Express,
 Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin
Proposed Schedule

<u>Frequency</u>	<u>Origin</u>	<u>Departure time</u>	<u>Arrival time</u>	<u>Destination</u>
x67	MSP	9:50	10:44	IWD
x67	IWD	11:00	11:57	MSP
x67	MSP	16:00	16:54	IWD
x67	IWD	17:10	18:07	MSP
6	MSP	9:50	10:44	IWD
6	IWD	11:00	11:57	MSP
7	MSP	16:00	16:54	IWD
7	IWD	17:10	18:07	MSP

Service List for the State of Michigan

Aero Taxi Rockford, Inc.
Air Wisconsin, Inc.
Allied Airlines, Inc.
Amerijet International, Inc.
Bemidji Airlines
Chautauqua Airlines, Inc.
Chrysler Pentastar Aviation, Inc.
Comair, Inc.
Delta Connection
Direct Air, Inc.
Enterprise Airlines, Inc.
Executive Airlines, Inc.
Florida Air, Inc.
Great Lakes Aviation, Ltd.
Jet Services, Inc.
Jetstream International Airlines, Inc.
Logansport Flying Service, Inc.
Mesaba Aviation, Inc.
Metroflight, Inc.
Michigan Airways, Inc.
Midway Airlines, Inc.
Midwest Aviation
Midwest Express Airlines, Inc.
Northcoast Executive Airlines, Inc.
Northwest Airlink
Pennsylvania Commuter Airlines, Inc.
Planemaster Services Inc.
Scott Aviation, Inc.
Shawano Flying Service, Inc.
Simmons Airlines, Inc.
Southern Air Transport, Inc.
Trans North Aviation Ltd.
Welch Aviation, Inc.

Chester Anderson
Ken Bannon
David Cole, Chairman
Sabrina Cranor
E.B. Freeman
A. Edward Jenner
Dan Katzka
John McFarlane
Tracy Schoenrock
Edward Wenz

Service List for the State of Wisconsin

Aero Taxi Rockford, Inc.
Air Casino, Inc.
Air Wisconsin, Inc.
AirVantage, Inc.
Amerijet International, Inc.
Bemidji Airlines
Chicago Air Taxi, Inc.
Chicago Express Airlines, Inc.
Delta Connection
Direct Air, Inc.
Dwyer Aircraft Sales, Inc.
Executive Airlines, Inc.
Gorda Aero Service, Inc.
Great Lakes Aviation, Ltd.
Imperial International, Inc.
Jet Services, Inc.
Mesaba Aviation, Inc.
Metroflight, Inc.
Michigan Airways, Inc.
Midway Airlines, Inc.
Midwest Aviation
Midwest Express Airlines, Inc.
Northwest Airlink
Planemaster Services Inc.
Scott Aviation, Inc.
Shawano Flying Service, Inc.
Simmons Airlines, Inc.
Thunderbird Aviation, Inc.
Trans North Aviation Ltd.
Welch Aviation, Inc.
Wise Aviation Company

Tom Alton
Chester Anderson
Ken Bannon
Sabrina Cranor
E.B. Freeman
A. Edward Jenner
Dan Katzka
John McFarlane
Tracy Schoenrock
Edward Wenz